



Pittsburgh Region Ranks Low in Business Startups

In past *Policy Briefs* and blogs we have commented on reports ranking the Pittsburgh area by one measure or another. In the case of the annual air quality ranking (*Policy Brief Volume 15, Number 21*), we can quickly dismiss the results with an in-depth look at the data. But they keep coming. Recently, the Pittsburgh area was ranked by the Kauffman Foundation in their annual Index of Startup Activity as having the lowest rate of entrepreneurial activity out of the forty largest metropolitan areas in the country. The immediate reaction from many local leaders was to defend the City.

Is the Kauffman ranking meaningful in reflecting reality? It is certainly methodologically sound. The only major drawback is that the data used is a bit dated (2012) because of the lags in the Census Bureau's collection and tabulation of the massive quantity of information required to assemble metro area and state statistics. The lag in reporting means the rankings are three years old and there could have been changes in relative performances since 2012.

The Kauffman Index (the Index) uses three measures of entrepreneurial activity to construct their overall ranking: the rate of new entrepreneurs, the opportunity share of new entrepreneurs, and the startup density. The Index is based on 2012 data from the US Census and Bureau of Economic Analysis (BEA). The first category, the *rate of new entrepreneurs*, is the number of new entrepreneurs each month per 100,000 persons. In this metric, the Pittsburgh area ranks tied for 39th with Cleveland and slightly ahead of Milwaukee.

The second metric, the *opportunity share of new entrepreneurs*, is the percentage of entrepreneurs who started their own business while already being employed. It discounts those who had gone from unemployed to owning their own business because they more than likely did so out of necessity whereas the former did so because they most likely saw opportunity. The Pittsburgh region again finished next to last ahead of Nashville and behind St. Louis and Detroit.

Third, *startup density* is the number of new firms per 100,000 persons in a given year, in this case 2012. Once again the Pittsburgh area finished second to last, ahead of Cincinnati but behind of Riverside, CA. Thus, with three next to last scores, the overall Kauffman rank places Pittsburgh last of the forty largest metro areas. It is important to

note here that employment growth in the Pittsburgh metro area has slowed dramatically since 2012 following a surge in jobs during the bounce back from the losses in the 2008-2010 recession.

While the first two measures may be useful in determining entrepreneurial activity, the number of entrepreneurs per month and those who started their business out of opportunity, the rest of this *Policy Brief* will focus on the last category—startup density. Startup density is of particular interest due to the fact that it focuses on actual firms and not by whom or how they were started. And it is likely to be the most reliable in terms of measurement.

Pittsburgh's density score of 98.3 simply means there were 98.3 new firms created in 2012 per 100,000 people in the metro area—39th of forty metro areas. The highest density score of 247 was recorded by Miami, FL. Other very high startup rates were posted in Orlando, Austin, New York, Tampa, Denver, and Los Angeles all having startup densities above 170. Nine metro areas had scores between 150 and 169, ranking from the 9th to 17th highest startup rates. San Jose, Atlanta, Charlotte, Portland, San Francisco, Jacksonville, San Diego, Las Vegas and San Diego make up this group of solid performers.

In the bottom tier of startup density rankings, the lowest six metro areas include Cleveland (105), Columbus (104), Milwaukee (101), Riverside (100), Pittsburgh (98.3) and Cincinnati (94). It is interesting that three of the metro areas are in Ohio. Note that Philadelphia, the only other Pennsylvania metro area in the top 40, ranked 28th in this metric (and 31st overall).

What are some possible reasons for the low Pittsburgh area ranking? Do entrepreneurs tend to be younger people who are more willing to take risks? The top ranked metro area in startup density, Miami, has a median age of 40.3. The highly ranked Austin region has a median age of 33, a very low reading when compared to the US median of 37. San Jose, 8th ranked, has a median age of 36. Meanwhile Tampa Bay, 6th ranked, has a median age of 41.6. Both the Milwaukee and Cincinnati metro areas had median ages of 37 and they ranked 38th and 40th in startup density respectively. The Pittsburgh metro area's median age is 42.6.

From these top ranked and bottom ranked groups of metro areas, it appears that median age is not a major determining factor in entrepreneurial activity. But the median age of a metro area is not the whole story. For example, one expects Miami and Tampa to be older on average because of their history of being retirement destinations. But with newer, younger immigrants coming in, there is every reason to believe there are fairly large populations of younger people as well.

One of the findings of studies of entrepreneurial activity indicates that immigrants tend to be more likely to start a business than natives, everything else equal. That could account for the relatively high rates of startup density in California metros and New York City.

Likewise, the relatively low rates of immigration into the Pittsburgh region could be an important element in the region's slow rate of new business formation.

However, it is interesting to note just how old the Pittsburgh region is. Breaking down the Pittsburgh area by county, shows that all have a median age above 40: Allegheny (41.1), Armstrong (44.9), Beaver (44.5), Butler (42), Fayette (43.6), Washington (43.7), and Westmoreland (45.4). Looking even further into Allegheny County, removing the City of Pittsburgh population (33.4) boosts the remainder of the county's median age to 43.6. Thus, most of the Pittsburgh region is quite old compared to national figures. And because it is so dramatically older than the national median age it is quite possible that age is playing a role in the Pittsburgh region's poor showing in the startup density ranking.

The purpose of the Kauffman Index is to track entrepreneurial activity, particularly with startup firms. Pittsburgh does not fare well in any of the three measures and ranks last overall for the second year in a row. But can entrepreneurial spirit be quantified? What makes someone an entrepreneur? Is it a demographic issue, such as age? Do younger people take more risks, because they have less to lose? Perhaps that plays a role. However, there can be little doubt that the business environment plays a crucial role. The Pittsburgh area and Pennsylvania have ranked poorly on business friendly indicators for decades. Regulations, labor climate, and business taxes all factor into the business environment. Only when the area and the state become more business friendly will this pattern be reversed.

So perhaps this ranking is not to be taken as the end-all and be-all of the story of the region's economic performance, but it does serve as another wake up call. It is a sign that things are not what they need to be if we want a stronger economy and faster job growth.

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